Assurance Doesn't Equal an Xray: a Riff

The International Consortium of Investigative Journalists (ICIJ) released a scathing report describing KPMG's assurance efforts on "sustainable forest management" while serving companies accused of deforestation[1]. It generated a healthy stream of thoughtful comments from academia, authors, ESG advocates, people working in capital markets, and people working at companies.

One comment in the fray struck me: "**People shouldn't think assurance equals an x-ray.** Depending on the partner's risk appetite, such work could be (and too often is) reduced to a box-ticking exercise." Thank you @Annamaria Melegh. This is profound – in many ways.

An X-ray is a great diagnostic tool – for some things. An X-ray isn't good for shingles, neurological problems, earache, or COVID. Where an X-ray is valid, it requires modern equipment, calibration, and experienced professionals to read, interpret, and explain what the X-ray is showing.

There is increasing demand for "assurance" in ESG reporting. SEC's proposed climate disclosure rule (March 2022) called for attestation of GHG emissions inventories. It's easy to ask for something if someone else is footing the bill. When it becomes mandatory, with little understanding of what it means (or doesn't), it's a tragic waste of resources.

What's "assurance"? Accountants (I'm not one) describe limited assurance and reasonable assurance. And attestation. The work product may be a simple letter with a signature. Users don't know critical aspects: scope; scope limitations; materiality threshold(s) for various topics; whether the effort focused on design, implementation, or both; what numerical data was tested; what narratives were pursued for support. Reports do not provide quantitative information (hours, timeline, costs) or qualitative information (credentials, experience). Users default to the letterhead as sufficient to check the box and move on. This is treacherous, both for the preparers and the users of these reports.

What users really want is confidence in data and information. Users want relevant data and information, clearly presented and explained. Users want "decision-useful" data. Sounds simple, but: a) ESG encompasses dozens of parameters; and b) there are several types of users, each with their own needs.

It all originates with systems and controls. COSO will release a report soon showing the connection between the Internal Controls Integrated Framework and ESG (disclosure: I'm an author). Furthermore, users would be well-served to understand many mechanisms that can improve confidence in data, including strong policies and procedures; competent staff; internal monitoring; robust/ relevant data governance; internal [management-sponsored] audits; Internal Audit (third line) consulting and assurance; and, yes, external assurance.

[1] See How auditing giant KPMG became a global sustainability leader while serving companies accused of forest destruction - ICIJ; accessed March 7, 2023

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